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Transportation Costs and the American Dream: Why a Lack of Transportation Choices Strains the Family Budget and Hinders Home Ownership

Surface Transportation Policy Project

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TRANSPORTATION COSTS AND THE AMERICAN DREAM



***Why a Lack of
Transportation
Choices Strains
the Family
Budget and
Hinders Home
Ownership***

**A Special Report from the
Surface Transportation Policy Project
July 2003**

Transportation Costs and the American Dream

Why a Lack of Transportation Choices Strains the Family Budget and Hinders Home Ownership

Transportation Is Expensive

Aside from the latest spike in gasoline prices, the costs of transportation go mostly unnoticed by the average American. Yet, on average, American households devoted 19.3 percent of every dollar spent in 2001 to transportation expenses. This is the second largest expense category – more than three times the cost of health care – adding up to \$7,633 per family annually just to get around. Housing, at \$13,011 per year is the only category that exceeds transportation as an expenditure.

Only recently has transportation comprised such a large share of the family budget. The proportion of household expenditures that is devoted to transportation has grown from under 10 percent in 1935 to about 14 percent in 1960, to almost 20 percent from 1972 through today.

The growth of transportation expenditures closely followed the drop in transit use and the emergence of sprawl development. As public

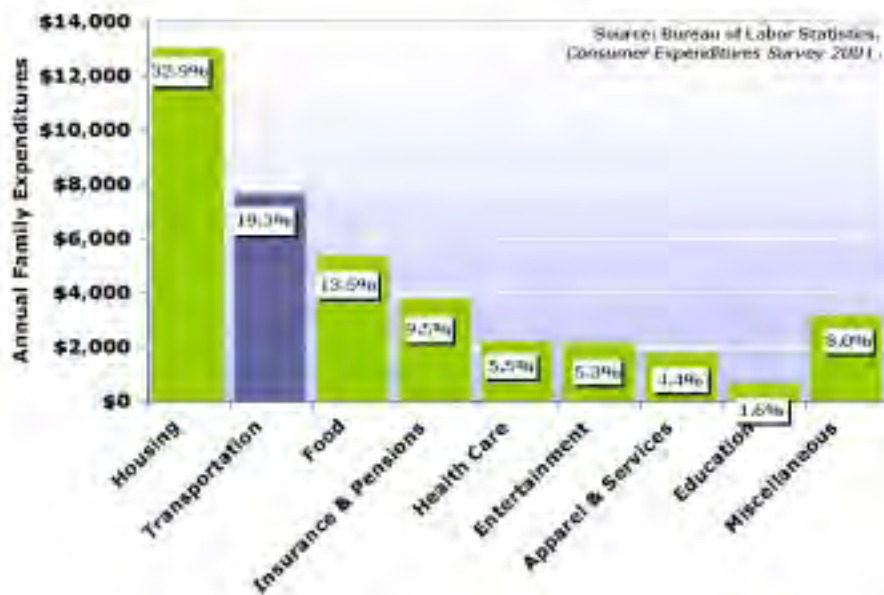
In 2001, American families devoted 19.3¢ of every dollar spent to transportation.

investment in transportation began to focus more on the building of roads and highways, private spending on transportation skyrocketed. Now, with few transportation choices other than driving available to many families – just over half of American households report having public transportation service available, according to the 2001 American Household Survey – the high cost of transportation has become an obligatory expense.

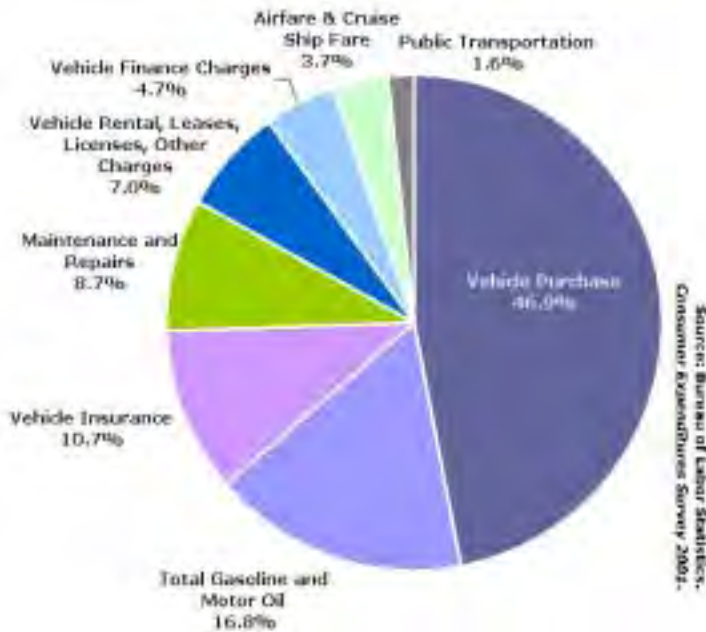
Of the personal funds spent annually on transportation, the largest share (46.9 percent) goes to new and used vehicle purchases. But family expenditures on cars and trucks goes well beyond just the initial purchase. Gasoline and motor oil, insurance, maintenance, and other vehicle-related expenses add up to an additional 47.9 percent of all transportation expenditures. Altogether, owning and operating a car or truck costs the average American household \$7,233 per year, comprising almost 95 percent of total transportation expenditures.

Compared to those high costs, public transportation is much less expensive. A recently published Bureau of Transportation Statistics (BTS) *Issue Brief* looking at commuting costs found that Americans who commute by car or truck spent about \$1,280 per year in 1999. In contrast, those Americans who were able to use public transportation to get to and from work spent just \$765 per year, an annual savings of \$515 per year. And that's just for commuting trips. Add in all the non-work trips (which now comprise 85 percent of all trips), and public transportation can save families thousands of dollars every year.

How Households Spend Each Dollar



Household Transportation Expenditures



Lower-Income Families Disproportionately Affected

For lower-income families, the expense of transportation poses a tremendous burden and inhibits wealth creation. The poorest 20 percent of American households, those earning less than \$13,908 (after taxes) per year, spend 40.2 percent of their take home pay on transportation. Nearly 95 percent of funds spent on transportation by the poorest American families are devoted to private vehicle expenses. But communities designed with the car in mind give lower-income families no other alternative. To meet life's daily needs, to reach jobs, doctors, even to get to the store to buy groceries, most American families, including those who can least afford it, must rely on a car.

A recent BTS study found that the working poor spend nearly 10 percent of their income on getting to and from work. This compares to just over 2 percent for individuals earning \$45,000 or more annually, and 3.9 percent for all working Americans. For the 66 percent of the working poor who commuted by private vehicle the

expense of commuting is even more burdensome. Those individuals spent fully 21 percent of their income to get to and from work. In contrast, the working poor who were able to take public transportation, bicycle, carpool, or walk to work spent far less, leaving more left over for housing, health care, food, and education.

A Barrier to Homeownership

For middle- and upper-income families, the cost of transportation is taken for granted. But for the poorest American families the high costs of owning and maintaining a car may put home ownership out of reach. Home ownership is recognized as one of the most practical ways to create wealth. Sizeable federal tax incentives, and the typically appreciating nature of real estate make home ownership a sensible investment. In contrast, because automobiles tend to depreciate very rapidly, an investment in a new or used car or truck will yield little if any financial gain to the owner.

Recent analysis from the Center for Neighborhood Technology reveals an inverse relationship between increasing car and truck ownership and diminishing family savings. In other words, as families buy more cars and trucks (especially through credit financing), they have less money saved in their bank accounts and therefore less money to invest in home ownership.

Household Transportation Spending by Income Group



For further information, see:

<http://www.transact.org>
<http://www.tea3.org>
<http://www.antc.net>

Higher Transportation Costs in Sprawling Metro Areas

How much families spend on transportation varies dramatically from metro area to metro area. Unfortunately, the Consumer Expenditures Survey is available for only 28 metro areas across the U.S. But those metro areas represent a wide spectrum of urban type, from sprawling megalopolises to traditional compact urban and suburban centers with convenient transit service.

As noted above, the average American family devoted an average of 19.3 cents of every dollar spent to transportation in 2001. Depending on where they live, however, a household may spend as much as 24.6 percent (Tampa-St. Petersburg-Clearwater, FL), or as little as 15.1 percent (New York) of the household budget on transportation (see Table

1). Much of this variation is due to the development patterns that characterize a metropolitan area, and the availability of public transportation and other alternatives like carpooling and walkable retail areas. While the sample size is too small to allow a rigorous statistical analysis, a quick glance at the list of metro areas shows that in many sprawling metro areas, families spend a much larger portion of their household budget on transportation than in more compact, transit- or pedestrian-oriented areas.

While a national standard for affordable housing gives decisionmakers a target to aim for – families should spend no more than one-third of their income on shelter – no such standard exists for transportation. Yet together, transportation and housing account for 52.2 percent of the average American

Table 1. Household Spending on Transportation by Metropolitan Area (2000-2001)

Rank (% Trans.)		Transportation Expenditures	Transportation as % of Total Expenditures	Housing + Transportation Expenditures	Housing + Transportation as % of Total Expenditures
1	Tampa	\$9,292	24.6%	\$21,250	56.4%
2	Phoenix	\$8,910	21.7%	\$22,271	54.3%
3	Dallas-Fort Worth	\$10,516	21.0%	\$26,035	51.9%
4	San Diego	\$9,161	20.8%	\$25,633	58.3%
5	Cleveland	\$8,202	20.7%	\$21,346	54.0%
6	Houston	\$9,566	20.1%	\$24,157	50.8%
7	Seattle	\$9,372	19.9%	\$25,153	53.4%
8	Pittsburgh	\$7,715	19.9%	\$19,121	49.3%
9	Cincinnati	\$8,166	19.7%	\$21,367	51.7%
10	St. Louis	\$8,043	19.1%	\$20,278	48.2%
11	Denver	\$8,458	18.9%	\$24,545	54.7%
12	Detroit	\$8,093	18.7%	\$22,467	51.8%
13	Kansas City	\$7,445	18.4%	\$20,285	50.1%
14	Miami	\$7,469	18.3%	\$22,448	55.1%
15	Anchorage	\$9,773	18.2%	\$26,835	50.0%
16	Los Angeles	\$8,104	17.9%	\$25,210	55.7%
17	Minneapolis-St. Paul	\$9,176	17.9%	\$25,002	48.7%
18	Chicago	\$8,189	17.4%	\$25,126	53.4%
19	Atlanta	\$6,577	17.3%	\$20,800	54.7%
20	Philadelphia	\$6,606	17.1%	\$20,308	52.7%
21	San Francisco	\$9,492	16.9%	\$30,369	54.1%
22	Baltimore	\$6,405	16.9%	\$19,482	51.3%
23	Boston	\$6,342	16.8%	\$20,096	53.2%
24	Milwaukee	\$6,683	16.6%	\$20,133	50.1%
25	Portland	\$6,917	16.2%	\$21,977	51.4%
26	Washington, DC	\$7,647	15.9%	\$25,620	53.2%
27	Honolulu	\$6,523	15.2%	\$20,426	47.5%
28	New York	\$7,295	15.1%	\$25,188	52.2%
United States		\$7,633	19.3%	\$20,644	52.2%

Source: Bureau of Labor Statistics.
Consumer Expenditures Survey 2000-2001.

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family's expenditures. The wide variability in these expenditures – 47.5 percent in Honolulu to 58.3 percent in San Diego – also suggests the need for some benchmark. Housing expenses alone are no longer a fair indicator of a metro area's affordability. Decisionmakers must also consider the cost of getting around to get a more realistic picture of the cost of living in a particular place.

Making Transportation Less Expensive for Families

Innovative, relatively simple and inexpensive strategies such as incorporating social services into public transportation centers can go a long way toward easing the transportation burden. Across the country, communities like Duluth, MN, San Jose, CA, Memphis, TN, and Lafayette, IN have opened up public child care facilities at transportation centers. This kind of forward-thinking project makes it easier for working mothers and fathers to commute by bus or rail, dropping their kids off at daycare on the way. And it can lessen the need to own a private vehicle, freeing up their hard-earned pay for other necessities.

Other strategies, such as the Location Efficient Mortgage[®] (LEM), now offered in Seattle, San Francisco, Los Angeles, and Chicago, can help lower-income families more accurately assess the true cost of living in a particular area, and help those families create wealth through home ownership. By taking into account the reduced costs of transportation in a transit-oriented neighborhood, the LEM allows potential home buyers to buy more house for their income than they could otherwise afford.

Likewise, policies which provide incentives to encourage employers to locate in accessible areas, and help make it easier for developers to create affordable traditional neighborhoods – communities which are walkable and served by transit – can also help lessen the burden that transportation now places on families, and especially the poorest American families.

Conclusion

As transportation costs rise, family budgets are increasingly pinched. Unfortunately, the nature of public investment and development patterns has created communities where families have little choice but to rely on private cars and trucks to reach jobs, stores, doctor's offices, and life's other daily errands. Today, even running out to pick up a gallon of milk can mean burning almost a gallon of gas. Family expenditures on transportation have grown dramatically – particularly since 1935, as land use patterns have become more sprawling and transportation choices have become fewer – to the point where they are now the second highest expense category.

Shifting government priorities to increase public investment in transit and improve existing assets to better accommodate more transportation choices can greatly reduce the household costs of transportation. As Congress debates the reauthorization of the federal transportation funding bill, TEA-21, it should provide robust levels of guaranteed transit funding and support for other transportation choices. This is more than just good transportation policy, it's good fiscal policy, helping American families save hard-earned money during tight economic times.

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The Center for Neighborhood Technology <<http://www.cnt.org>>

The Location Efficient Mortgage[®] (LEM) <<http://www.locationefficiency.com>>

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